The global personal luxury goods industry can be split into “soft” luxury and “hard” luxury. What are the key categories in each of those segments and how is LVMH currently positioned? How will the acquisition change LVMH’s position as well as its competitive advantage?

Soft Luxury refers to leather accessories, bags and designer clothing etc. Hard Luxury includes jewellery, watches etc.

Luxury Goods Categories Global Market Share (2018 EOY)

Industry	Market Share LVMH Moët Hennessy Louis Vuitton SA	Market Share Tiffany & Co
Super Premium Beauty and Personal Care	LVMH Moët Hennessy Louis Vuitton SA (12.6%)	Tiffany & Co (0%)
Luxury Timepieces	LVMH Moët Hennessy Louis Vuitton SA (9.8%)	Tiffany & Co (0.4%)
Luxury Writing Instruments and Stationery	LVMH Moët Hennessy Louis Vuitton SA (9.8%)	Tiffany & Co (1.2%)
Luxury Portable Consumer Electronics	LVMH Moët Hennessy Louis Vuitton SA (15.1%)	Tiffany & Co (0%)
Luxury Jewellery	LVMH Moët Hennessy Louis Vuitton SA (7.9%)	Tiffany & Co (9.6%)
Luxury Leather Goods	LVMH Moët Hennessy Louis Vuitton SA (23.4%)	Tiffany & Co (0%)
Luxury Eyewear	LVMH Moët Hennessy Louis Vuitton SA (1.5%)	Tiffany & Co (0.4%)
Designer Apparel and Footwear (Ready-to-Wear)	LVMH Moët Hennessy Louis Vuitton SA (7.4%)	Tiffany & Co (0%)
Fine Wines/Champagne and Spirits	LVMH Moët Hennessy Louis Vuitton SA (4.1%)	Tiffany & Co (0%)

As shown above LVMH has a strong position across multiple soft and hard ‘Luxury Goods’ sectors. In particular, LVMH have significant global market share* of Luxury Leather Goods (23.4%), Luxury Portable Consumer Electronics (15.1%) and Luxury Super Premium Beauty and Personal Care Sectors (12.6%).

Synergy Benefits to Market Share

Once the acquisition of Tiffany & Co has passed successfully, LVMH will also have significant global market share within Luxury Timepieces (10.2%), Luxury Writing Instruments and Stationery (11%) and Luxury Jewellery (17.5%) with significant horizontal integration.

Additional Synergy Benefits

Further Synergies will arise through Tiffany & Co’s strong reputation and distribution channels.

Distribution Benefits: Tiffany & Co is vertically integrated in its supply chain across 10 countries and has 321 stores covering The Americas, LATAM, Europe, APAC and Japan. Joint distribution could be a great growth opportunity, while decreasing operating expenses

Reputation Benefits: Tiffany & Co is perceived globally as one of the leading craftsmanship houses, with particular prominence in the US, where since 1860 Tiffany-made trophies have been popular in sports; Breakfast at Tiffany's remains iconic as a symbol of New-York luxury and a wide variety of jewellery selections across Collections/Engagement/Designer and other ensure strong coverage across demographics. This will improve LVMH-goods prestige in the US and help LVMH become a recognised global player in fine jewellery.

**defined here as >10% of global market share as of 2018*

Author: Mark Kleyner

How is the deal structured and how will it impact LVMH's leverage (i.e., Net Debt / EBITDA)? Additionally – how will it impact the WACC?

Bridge Loan (from bank): direct loan from bank

Commercial Paper (bonds from banks): A back-up line of credit is a credit facility provided by one or more banks to assure investors that the issuer will have the funds required for repaying maturing commercial paper in the event it cannot be redeemed out of the issuer's operational cash flow or the market proves inaccessible for rolling it over. Credit from bank secured against LVMH bonds

RCF (revolving credit facility): a type of credit that does not have a fixed number of payments, in contrast to fixed term loans

Deal structure

The Total equity value of the transaction: $16.2 billion (i.e. c. €14.7 billion). This will be financed across 3 different channels:

1) a $8.5bn bridge loan from financial institutions (potentially from mezzanine financing)
2) a $5.75bn commercial paper back-up line from one or more banks, secured against LVMH bonds
3) a €2.5bn RCF, to be refinanced on bond markets

Impact on leverage

This acquisition will have a limited impact on LVMH's leverage, bringing it to +1.6x Net Debt/EBITDA in 2020E. As a result of the acquisition, Net income accretion in 2020 is estimated ~5%.

Further Information

Tiffany's quarterly dividend payment of 0.58$/share maintained before closing. LVMH will acquire Tiffany for $135 per share in cash, in a transaction with an equity value of approximately €14.7 billion or $16.2 billion. A further $350m will go to cover Tiffany & Co's debts.

Impact on WACC

Total Capital = Debt + Equity WACC = (Equity / Total Capital) * CoE + (Debt / Total Capital) * CoD * (1 - Tax Rate)

CoD = Cost of Debt

CoE = Cost of Equity

Bridge loans, CPs and the RCF will all impact LVMH's debt level where Debt is now higher. Debt/Total Capital is now higher. This change in the capital structure will likely mean a fall in Equity/Total Capital.

As LVMH took on multiple new loans, the average interest payable is now higher. This will be reflected in a higher cost of debt, which in turn will mean a net increase in our total weighted average cost of capital.

Compare both the absolute valuation (the amount paid) and relative valuation (EV/EBITDA) of this deal with the last two major acquisitions LVMH completed (Dior and Belmond) and the recent Michael Kors-Versace deal by completing the table. Is the valuation for this deal reasonable in comparison?

Deal	Absolute Valuation Measure	Relative Valuation Measure
LVMH-Tiffany	$16.6bn	16.3x
LVMH-Dior	$13.1bn	15.6x
LVMH-Belmond	$3.2bn	22.86x
Michael Kors-Versace	$2.1bn	40.67x

Reviewing comparable industry benchmarks of acquisitions, relative EV/EBITDA multiples are acceptable. Considering the high absolute valuation of the Tiffany purchase, the 16.3x valuation is reasonable for an acquisition in a sector with average EV/EBITDA multiples at 11.2-11.8x (Source)

Considering the recent consolidation among other luxury brands across global luxury sectors at high EV/EBITDA multiples such as 40.67 (for Michael Kors' Versace acquisition), the 16.3 valuation seems justifiable.

How will the deal impact LVMH's operating profit margin?

LVMH Profit from recurring operations has reached €11.5 bn in 2019 a + 15% increase from 2018.

Evolution versus same period of 2018	H1 2019	H2 2019	2019
WINES & SPIRITS	+ 6%	+ 6%	+ 6%
FASHION & LEATHER GOODS	+ 17%	+ 29%	+ 24%
PERFUMES & COSMETICS	+ 6%	- 5%	+ 1%
WATCHES & JEWELRY	+ 5%	+ 5%	+ 5%
SELECTIVE RETAILING	+ 17%	- 12%	+ 1%
TOTAL LVMH	**+ 14%**	**+ 16%**	**+ 15%**

Source: LVMH financial indicators

Across LVMH business groups, there is a strong net growth across all categories over the course of 2018-2019.
Tiffany operating margin is also high at 16.56% of revenue.

Operating Margin (TTM) (%)	16.56
Operating Margin (MRQ) (%)	19.81
Operating Margin (FY) (%)	16.56
Net Profit Margin (TTM) (%)	12.23
Net Profit Margin (MRQ) (%)	14.82
Net Profit Margin (FY) (%)	12.23
Gross Margin (TTM) (%)	62.43
Gross Margin (MRQ) (%)	63.27
Gross Margin (FY) (%)	62.43

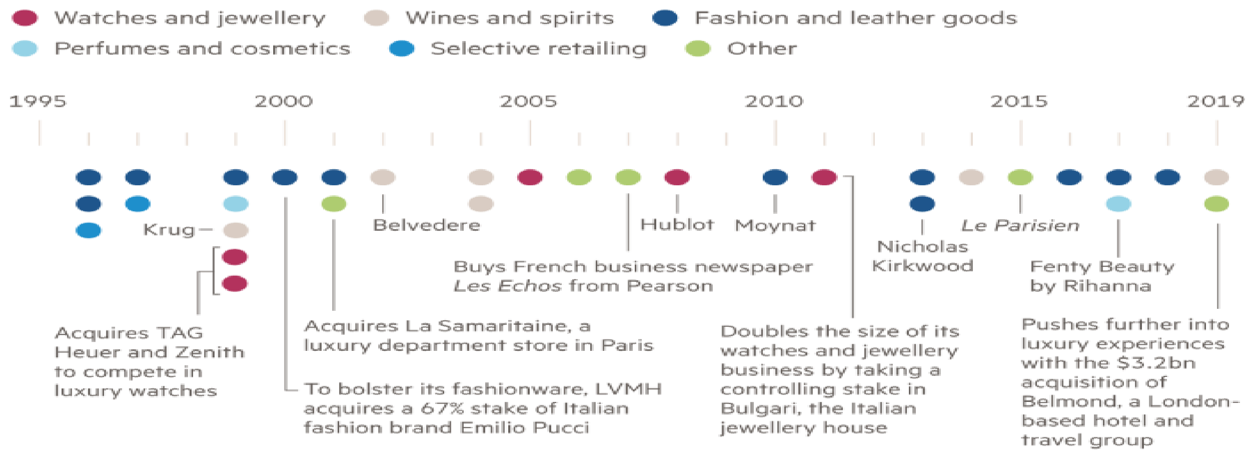
Source: Tiffany Investor Information

In relative terms, the deal should reflect well on LVMH's profit margins raising its average operating margins. At the same time, in absolute terms, this will reflect a significant increase in revenue. Cross-subsidising poorer-performing sectors can help future growth and eliminate further discrepancies in the long run, facilitating a net increase in operating margins. Using 2018 figures, the acquisition would result in a 67% increase in LVMH's operating profits.

Do you think this is a good or bad deal for LVMH?

LVMH has a diverse range of brands

Acquisitions by business area*



*Acquisitions that LVMH continue to own Source: company; FT research
FT visual journalism: Patrick Mathurin; Chris Campbell
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LVMH is a conglomerate which has focuses on combining its tradition and modernity values by a continued stream of M&A activity over the last 25 years. This has allowed LVMH to reach a strong position across multiple soft and hard 'Luxury Goods' sectors. LVMH have significant global market share (defined as >10%) of Luxury Leather Goods (23.4%), Luxury Portable Consumer Electronics (15.1%) and Luxury Super Premium Beauty and Personal Care Sectors (12.6%).

There are several reasons why this is a good deal for LVMH:

1) LVMH will gain a greater market share in several key high-end luxury markets like jewellery, helping to consolidate this sector and to capture greater revenue
2) LVMH will get access to the globally vertically integrated manufacturing facilities of Tiffany improving LVMH's production network
3) LVMH have a strong record of driving the growth of brands post acquisition, having doubled revenues in their Bulgari segment over the last 8 years
4) Tiffany's access to LVMH's existing distribution network and strategic relationships would strengthen their new supply chains and reduce operating expenses, with greater supply chain stability. This will allow for a higher operating margin, yielding benefits for LVMH
5) At present, LVMH's luxury jewellery brands cover a narrow spectrum of customers, and the acquisition of Tiffany could ensure access to the entire luxury jewellery market
6) LVMH is well positioned to expand into the growing luxury jewellery market in China, and the reputation of Tiffany & Co as a highly prestigious US brand will help to facilitate this expansion

Potential Negatives are:

1. Increased leverage and financial risk for LVMH investors
2. Lower overall margins, despite higher sector-specific margins in jewellery
3. High deal execution cost will deplete scarce credit opportunities at a time of low liquidity

In conclusion, considering LVMH's strong record in operating luxury brands, the supply and distribution benefits from the merger, the positive forecast impact on profit margin all suggest that the deal is financially sound in future orientation. Meanwhile, by financing the acquisition through an all-cash deal, largely by issuing debt and not experiencing share dilution, LVMH can retain investor confidence in their business strategy. I thus believe this is a good deal for LVMH.